



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
FORMER JOHNSON COUNTY  
SHERIFF'S SETTLEMENT - 1997 TAXES  
AND  
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES**

**February 16, 1999**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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## Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable R. T. Daniel, Johnson County Judge/Executive

Honorable Bill Witten, Johnson County Sheriff

Honorable Don McFaddin, Former Johnson County Sheriff

Members of the Johnson County Fiscal Court

### Independent Auditor's Report

We have audited the former Johnson County Sheriff's Settlement - 1997 Taxes as of February 16, 1999, and the Sheriff's Settlement - 1996 Unmined Coal Taxes as of April 12, 1999. These tax settlements are the responsibility of the former Johnson County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the former Johnson County Sheriff's taxes charged, credited, and paid as of February 16, 1999, and April 12, 1999, in conformity with the basis of accounting described in the preceding paragraph.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

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Honorable Bill Witten, Johnson County Sheriff

Honorable Don McFaddin, Former Johnson County Sheriff

Members of the Johnson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- Former Sheriff Gay Cyrus Should Eliminate The \$17,516 Deficit In Her 1992 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$8,065 Deficit In His 1993 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$828 Deficit In His 1997 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$4,734 Deficit In His 1996 Unmined Coal Tax Account
- The County, State, School, And Special Taxing Districts Tax Collections Should Be Adequately Protected From Loss By The County Revenue Bond
- Former Sheriff Don McFaddin Should Have Recorded In His Receipts Ledger Advertising Costs And Sheriff's Fees Collected And Should Have Paid Advertising Costs To The County Timely
- Former Sheriff Don McFaddin Should Have Paid Boards Of Education The Proper Share Of Interest Earned And Should Have Made These Payments Timely
- Former Sheriff Don McFaddin Should Have Obtained A Written Agreement To Protect Deposits
- Former Sheriff Don McFaddin's Office Lacked An Adequate Segregation Of Accounting Duties
- Former Sheriff Don McFaddin Should Have Reconciled His Bank Statements On A Monthly Basis

In accordance with Government Auditing Standards, we have also issued a report dated March 2, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
March 2, 2000

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 1997 TAXES

February 16, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 362,860	\$ 407,112	\$ 2,020,318	\$ 694,745
Tangible Personal Property	50,311	41,731	537,003	101,384
Intangible Personal Property				49,587
Fire Protection	2,576			
Omitted Taxes	747	804	4,982	1,437
Increased Through Erroneous Assessments	250	207	6,732	290
Penalties	2,527	2,801	14,940	4,897
Adjusted to Sheriff's Receipt	862	794		3,149
Gross Chargeable to Sheriff	<u>\$ 420,133</u>	<u>\$ 453,449</u>	<u>\$ 2,583,975</u>	<u>\$ 855,489</u>
<u>Credits</u>				
Discounts	\$ 5,137	\$ 5,507	\$ 32,413	\$ 10,399
Exonerations	3,757	4,137	30,914	7,615
Delinquents:				
Real Estate	59,919	67,165	358,320	114,720
Tangible Personal Property	2,505	2,079	11,233	5,639
Intangible Personal Property				687
Total Credits	<u>\$ 71,318</u>	<u>\$ 78,888</u>	<u>\$ 432,880</u>	<u>\$ 139,060</u>
Net Tax Yield	\$ 348,815	\$ 374,561	\$ 2,151,095	\$ 716,429
Less: Commissions (a)	<u>15,112</u>	<u>15,919</u>	<u>64,533</u>	<u>30,736</u>
Net Taxes Due	\$ 333,703	\$ 358,642	\$ 2,086,562	\$ 685,693
Taxes Paid	333,341	358,426	2,086,001	685,657
Add Penalty Per State Settlement				7
Less Refunds (Current and Prior Year)				<u>43</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 362</u>	<u>(b) 216</u>	<u>(c) 561</u>	<u>\$ 0</u>

(a), (b) and (c) See Page 4

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 1997 TAXES  
February 16, 1999  
(Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	1,429,805
3% on	\$	2,151,095

(b) Special Taxing Districts:

Library District	\$	89
Health District		92
Extension District		29
Soil District		6
		<hr/>

Due Districts	\$	<u>216</u>
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(c) School Taxing Districts

Common School	\$	1,214
Paintsville Independent School		<u>(653)</u>

Due Districts or (Refund Due Sheriff)	\$	<u>561</u>
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JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES

April 12, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for				
Unmined Coal	\$ 3,241	\$ 3,521	\$ 17,327	\$ 6,523
Interest	229	196	767	372
Omitted Taxes	4,184	3,579	14,232	6,721
Penalties	1,483	1,268	4,985	2,398
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 9,137	\$ 8,564	\$ 37,311	\$ 16,014
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Discounts	\$ 62	\$ 67	\$ 332	\$ 125
Exonerations	129	111	450	205
Delinquents	554	498	2,120	922
Penalties Waived	371	317	1,236	601
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 1,116	\$ 993	\$ 4,138	\$ 1,853
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 8,021	\$ 7,571	\$ 33,173	\$ 14,161
Less: Commissions *	341	322	995	602
	<hr/>	<hr/>	<hr/>	<hr/>
Net Taxes Due	\$ 7,680	\$ 7,249	\$ 32,178	\$ 13,559
Taxes Paid	7,680	7,249	30,276	14,399
Add Penalty per State Settlement				840
Due Districts or (Refund Due Sheriff)	<hr/>	<hr/>	<hr/>	<hr/>
as of Completion of Fieldwork	\$ 0	\$ 0	\$ 1,902	\$ 0
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\* Commissions:

    4.25% on \$ 29,753

    3% on \$ 33,173

The accompanying notes are an integral part of the financial statements

JOHNSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

February 16, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision of collateral. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

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JOHNSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
February 16, 1999  
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was August 12, 1998 through February 16, 1999.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1996. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 1997 through January 4, 1999.

Note 4. Interest Income

The former Johnson County Sheriff earned \$5,326 as interest income on 1997 taxes and \$1,273 as interest income on 1996 unmined coal taxes. The former Sheriff did not distribute the appropriate amount to the school districts monthly as required by KRS 134.140(3)(b). The former Sheriff did pay the school boards their share of interest earned on the 1997 property taxes but made these payments in one lump sum instead of monthly. The former Sheriff did not pay any of the interest earned on the 1996 unmined coal taxes to the school district.

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - 1997 TAXES

February 16, 1999

Assets

Cash in Bank	\$	713
Deposits in Transit		130
Receivable:		
Taxes Due Independent School District		<u>653</u>
Total Assets	\$	<u>1,496</u>

Liabilities

Paid Obligations-			
Service Charges		\$	49
Unpaid Obligations-			
Taxing Districts-			
Fiscal Court	\$	362	
Common School District		1,214	
Library District		89	
Health District		92	
Extension District		29	
Soil District		<u>6</u>	\$ 1,792
Tax Commissions Due Sheriff's Fee Account			353
Interest Due-			
Common School District	\$	41	
Independent School District		34	
Sheriff's Fee Account		<u>55</u>	<u>130</u>
Total Unpaid Obligations			<u>\$ 2,275</u>
Total Liabilities			<u>\$ 2,324</u>
Total Fund Deficit as of February 16, 1999			<u><u>\$ (828)</u></u>

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - 1996 UNMINED COAL TAXES

April 12, 1999

Assets

Cash in Bank		\$ 5,093
Total Assets		\$ 5,093

Liabilities

Paid Obligations-			
Health District	\$ 2,818		
Common School District	1,275	\$ 4,093	
Unpaid Obligations-			
Taxes Due Districts-			
Common School District	\$ 1,902		
Interest Due-			
Common School District	651		
Sheriff's Fee Account	622		
Refunds Due Taxpayers	299		
Tax Commissions Due Sheriff's Fee Account	2,260	5,734	
Total Liabilities		\$ 9,827	
Total Fund Deficit as of April 12, 1999		<u>\$ (4,734)</u>	

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## COMMENTS AND RECOMMENDATIONS





JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

February 16, 1999

STATE LAWS AND REGULATIONS:

1. Former Sheriff Gay Cyrus Should Eliminate The \$17,516 Deficit In Her 1992 Tax Account

Former Sheriff Gay Cyrus has a deficit of \$17,516 in her 1992 tax account. This deficit is the result of undeposited 1992 tax receipts. In the 1992 tax audit, a deficit of \$17,559 was reported in the 1992 tax account. Since publication of that audit, the deficit has been reduced by \$43. Therefore, a deficit of \$17,516 remains in the 1992 tax account. Assets and liabilities listed below remain for the 1992 tax account and illustrate the composition of the deficit. We recommend the former sheriff deposit personal funds of \$17,516 to eliminate the deficit in the 1992 tax account. The purpose of this deposit is to enable payment of all liabilities associated with 1992 property tax collections and demonstrates the former sheriff's personal responsibility for tax collections and distributions as prescribed by various Kentucky Revised statutes in Chapter 134.

KRS 64.820(1) states the fiscal court shall collect any amount due the county from the county official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the fiscal court cannot collect the amount due the county from a county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported in the audit. We recommend the fiscal court direct former Sheriff Gay Cyrus to deposit personal funds of \$17,516 to eliminate the deficit in the 1992 tax account. If the fiscal court is not successful, we recommend the fiscal court direct the county attorney to institute suit for collection of amounts due the county.

<u>Assets</u>		<u>Liabilities</u>	
Cash in Bank	\$ 0	1992 Taxes Due To:	
Receivables:		Common School	\$ 13,295
Tax overpayment		Independent School	4,477
Due from State	21	Commissions Due to	
Refunds Due from		1993 Fee Account	<u>1,114</u>
Other Accounts	<u>1348</u>	Total Liabilities	<u>\$ 18,885</u>
Total Assets	<u>\$ 1,369</u>		
Assets	\$ 1,369		
Liabilities	<u>(18,885)</u>		
Deficit	<u>\$ (17,516)</u>		

*Former Sheriff Gay Cyrus's Response:*

"Former Sheriff Cyrus was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
February 16, 1999  
(Continued)

2. Former Sheriff Don McFaddin Should Eliminate The \$8,065 Deficit In His 1993 Tax Account

Former Sheriff Don McFaddin has a deficit of \$8,065 in his 1993 tax account. This deficit is the result of undeposited 1993 tax receipts. A former employee pled guilty to failing to make the required disposition of property in regard to the deficit. In the 1993 tax audit, a deficit of \$13,285 was reported in the 1993 tax account. Since publication of that audit, the former Sheriff has collected \$5,000 from the former employee's bonding company and has earned \$220 in interest. Therefore, a deficit of \$8,065 remains in the 1993 tax account. Assets and liabilities listed below remain for the 1993 tax account and illustrate the composition of the deficit.

We recommend former Sheriff Don McFaddin deposit personal funds of \$8,065 to eliminate the deficit in the 1993 tax account. The purpose of this deposit is to enable payment of all liabilities associated with 1993 property tax collections and demonstrates the former Sheriff's personal responsibility for tax collections and distributions as prescribed by various Kentucky Revised Statutes in Chapter 134.

KRS 64.820(1) states the fiscal court shall collect any amount due the county from a county official as determined by the audit if the amount can be collected without suit. KRS 64.820(2) states that in the event the fiscal court cannot collect the amount due the county from a county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported in the audit. We recommend the fiscal court direct former Sheriff Don McFaddin to deposit personal funds of \$8,065 to eliminate the deficit in the 1993 tax account. If the fiscal court is not successful, we recommend the fiscal court direct the county attorney to institute suit for collection of amounts due the county.

<u>Assets</u>		<u>Liabilities</u>	
Cash in Bank	\$ <u>0</u>	1993 Taxes Due To:	
		Common School	\$4,125
Total Assets	\$ <u>0</u>	Refund of Taxes Paid	
		By Fee Account	<u>3,940</u>
Assets	\$ 0	Total Liabilities	<u>\$8,065</u>
Liabilities	<u>(8,065)</u>		
Deficit	<u>\$ (8,065)</u>		

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
February 16, 1999  
(Continued)

3. Former Sheriff Don McFaddin Should Eliminate The \$828 Deficit In His 1997 Tax Account

Former Sheriff Don McFaddin has a deficit of \$828 in his 1997 tax account. This deficit is the result of undeposited 1997 tax receipts. Assets and liabilities listed below remain for the 1997 tax account and illustrate the composition of the deficit. We recommend former Sheriff Don McFaddin deposit personal funds of \$828 to eliminate the deficit in the 1997 tax account.

<u>Assets</u>		<u>Liabilities</u>	
Cash in Bank	\$ 794	1997 Taxes Due To:	
Receivables:		County District	\$ 362
Tax Overpayment Due		Common School District	1,214
From Independent		Library District	89
School District	<u>653</u>	Health District	92
		Extension	29
Total Assets	<u>\$ 1,447</u>	Soil	6
		Commissions Due Fee Acct	353
Assets	\$ 1,447	Interest Due To:	
Liabilities	<u>(2,275)</u>	County School District	41
		Independent School District	34
Deficit	<u>\$ (828)</u>	Fee Account	<u>55</u>
		Total Liabilities	<u>\$ 2,275</u>

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
February 16, 1999  
(Continued)

4. Former Sheriff Don McFaddin Should Eliminate The \$4,734 Deficit In His 1996 Unmined Coal Tax Account

Former Sheriff Don McFaddin has a deficit of \$4,734 in his 1996 unmined coal tax account. This deficit is the result of undeposited 1996 unmined coal tax receipts. Assets and liabilities listed below remain for the 1996 unmined coal tax account and illustrate the composition of the deficit. We recommend former Sheriff Don McFaddin deposit personal funds of \$4,734 to eliminate the deficit in the 1996 unmined coal tax account.

<u>Assets</u>		<u>Liabilities</u>	
Cash in Bank	\$ 5,093	1996 Unmined Coal Taxes Due To:	
		Health District	\$ 2,818
Total Assets	\$ 5,093	Common School District	3,177
		Interest Due Common School	651
		Refunds Due Taxpayers	299
Assets	\$ 5,093	Commissions Due Fee Account	2,260
Liabilities	(9,827)	Interest Due Fee Account	622
Deficit	\$ (4,734)	Total Liabilities	\$ 9,827

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

5. The County, State, School, And Special Taxing Districts Tax Collections Should Be Adequately Protected From Loss By The County Revenue Bond

The County, State, School, and Special Taxing Districts tax collections represent \$3,464,654 of total taxes collected by former Sheriff Don McFaddin. The former Sheriff's county revenue bond was \$300,000. The county revenue bond was not adequate to protect tax collections from loss. We recommend the county revenue bond be sufficient enough to protect the county from potential loss.

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
February 16, 1999  
(Continued)

6. Former Sheriff Don McFaddin Should Have Recorded In His Receipts Ledger Advertising Costs And Sheriff's Fees Collected And Should Have Paid Advertising Costs To The County Timely
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KRS 134.160(2) states the Sheriff shall keep an accurate account of all moneys received by him. During our audit, we found no evidence that former Sheriff Don McFaddin recorded advertising costs or Sheriff's fees collected in his receipts ledger. KRS 134.440(2) states that expenses incurred relative to the advertisement of unpaid tax bills shall be paid by the county and the county shall have a claim on any proceeds recovered. Advertising costs collected by the former Sheriff represent recovery of expenses paid by the county. Therefore, advertising costs collected by the former Sheriff should have been paid to the county when collected. We recommend the Sheriff's office comply with KRS 134.160.(2) by recording all receipts collected in a receipts ledger. We also recommend that in the future the Sheriff's office pay these fees as collected

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

7. Former Sheriff Don McFaddin Should Have Paid Boards of Education The Proper Share Of Interest Earned And Should Have Made These Payments Timely
- 

The former Sheriff did not make monthly payments of interest earned to the school boards of education. KRS 134.140(3)(b) states that at the time of his monthly report and distribution of taxes to the board of education, the sheriff shall pay the board that part of investment earnings which is attributable to the investment of school taxes. The former Sheriff did pay the school boards their share of interest earned for 1997 taxes. However, these payments were made in a lump sum at the end of tax collections. KRS 134.140(3)(b) requires monthly distribution of interest to the school boards. We recommend the Sheriff's comply with KRS 134.140(3)(b) by distributing the school boards' share of interest earned on a monthly basis.

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
DON MCFADDIN, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
February 16, 1999  
(Continued)

8. Former Sheriff Don McFaddin Should Have Obtained A Written Agreement To Protect Deposits

The former Sheriff office maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should have pledged or provided sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of October 12, 1998, the former Sheriff had bank deposits of \$2,704,437, insurance of \$100,000, and collateral pledged of \$3,918,548. Even though the Sheriff obtained sufficient collateral of \$1,000,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

1. Former Sheriff Don McFaddin's Office Lacked An Adequate Segregation Of Accounting Duties

We noted a lack of adequate segregation of duties for the former Sheriff's internal control structure and its operation that, in our judgement, is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official had limited options for establishing an adequate segregation of duties. We recognize the extent of segregation of duties is a judgement established by management and that this judgement is affected by certain circumstances beyond management's control. Management has considered and rejected additional cost when setting budget limits on spending for salaries and accepts the degree of risk for a lack of an adequate segregation of duties. We have judged this lack of an adequate segregation of duties as a material reportable condition for the former Sheriff's office.

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

JOHNSON COUNTY  
 DON MCFADDIN, FORMER SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 February 16, 1999  
 (Continued)

2. Former Sheriff Don McFaddin Should Have Reconciled His Bank Statements On A Monthly Basis

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During the audit, we noted the former Sheriff did not reconcile his bank statements on a monthly basis. The preparation of bank reconciliations is a compensating control to offset a lack of segregation of duties. We recommend the Sheriff's office prepare bank reconciliations on monthly basis on all bank accounts maintained by the Sheriff's office.

*Former Sheriff Don McFaddin's Response:*

"Former Sheriff McFaddin was given an opportunity to respond, but has made no response."

PRIOR YEAR:

The following items have been noted in prior year audit reports and have not been corrected.

- Former Sheriff Gay Cyrus Should Eliminate The \$17,516 Deficit In Her 1992 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$8,065 Deficit In His 1993 Tax Account
- The County, State, School, and Special Taxing Districts Tax Collections Should Be Adequately Protected From Loss By The County Revenue Bond
- Former Sheriff Don McFaddin Should Have Recorded In His Receipts Ledger Advertising Costs And Sheriff's Fees Collected And Should Have Paid Advertising Costs To The County Timely
- Former Sheriff Don McFaddin Should Have Paid Boards Of Education The Proper Share Of Interest Earned And Should Have Made These Payments Timely
- Former Sheriff Don McFaddin Should Have Obtained A Written Agreement To Protect Deposits
- Former Sheriff Don McFaddin's Office Lacked An Adequate Segregation Of Accounting Duties
- Former Sheriff Don McFaddin Should Have Reconciled His Bank Statements On A Monthly Basis

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable Bill Witten, Johnson County Sheriff  
Honorable Don McFaddin, Former Johnson County Sheriff  
Members of the Johnson County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Johnson County Sheriff's Settlement – 1997 Taxes as of February 16, 1999, and Sheriff's Settlement – 1996 Unmined Coal Taxes as of April 12, 1999, and have issued our report thereon dated March 2, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Former Sheriff Gay Cyrus Should Eliminate The \$17,516 Deficit In Her 1992 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$8,065 Deficit In His 1993 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$828 Deficit In His 1997 Tax Account
- Former Sheriff Don McFaddin Should Eliminate The \$4,734 Deficit In His 1996 Unmined Coal Tax Account
- Former Sheriff Don McFaddin Should Have Recorded In His Receipts Ledger Advertising Costs And Sheriff's Fees Collected And Should Have Paid Advertising Costs To The County Timely
- Former Sheriff Don McFaddin Should Have Paid Boards Of Education The Proper Share Of Interest Earned And Should Have Made These Payments Timely

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(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

- Former Sheriff Don McFaddin's Office Lacked An Adequate Segregation Of Accounting Duties
- Former Sheriff Don McFaddin Should Have Reconciled His Bank Statements On A Monthly Basis

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 2, 2000

